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ABSTRACT

The role of tuition in financing public higher education in several southern states is examined. Several problem areas are addressed: how tuition levels are established and what rationales exist for the various charges; the contribution made by tuition when compared to other sources of revenue; and the essential elements of a statewide study of tuition and tuition policy. It is shown that the historical pattern of tuition has resulted in inequities between types of institutions, between levels of instruction, between full- and part-time students, and between in-state and out-of-state tuition. Financial aid is also shown to affect the differential between public and private tuition. Tuition policy should be a major factor in educational goal development. (LBH)

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Tuition Policy in Public Higher Education

The role of tuition in financing public higher education is a subject of increasing interest. How are tuition levels established and what rationales exist for the various charges? What contribution does tuition make when compared to other sources of revenue? What are the essential elements of a statewide study of tuition and tuition policy?

Tuition and the Budget Process

How are tuition levels established? While we can examine the process, the actual level of tuition in the various states of the region is more a product of historical tradition than of particular rationales. Tables 1 and 2 reveal the wide variation in tuition levels among the states as well as their differing relationship to state appropriations.

The systems by which tuition revenue are established and controlled are basically two:

1) Institutional governing boards or system boards establish the level (sometimes within guidelines put forth by the state coordinating agency) and control the income. Estimates of this internal revenue are used, explicitly or implicitly, by the state agency to calculate budget requests. This system is followed in Alabama, Arkansas, Georgia, Louisiana, Mississippi, South Carolina and Tennessee.

2) Institutions or state governing boards establish tuition, deposit revenues in the state treasury and then receive an appropriation from these "special revenue funds" in addition to their general or tax revenue appropriations. This is the system in Florida, Maryland, North Carolina, Virginia, and West Virginia. In some of these states, the legislature has established minimum tuition levels, and in Florida beginning in 1977, the legislature will have full responsibility for setting tuition.

The two exceptions to this pattern of tuition establishment and control—Kentucky and Texas—are similar in type to those states which allow institutions to control revenue, but in the case of Kentucky the coordinating council sets tuition; in Texas, it is the legislature.

The tuition debate concerning the appropriate contribution of the student and of society usually has little to do with actual decision-making. As Robert Winter noted in his analysis of the process, various groups engage in tuition discussions while pushing their particular interests: *the general taxpayer* seeking increased tuition in order to reduce tax demands; *students and parents as consumers* seeking lower tuition and more product; *university administrators* searching for revenues (but worried about the impact of tuition increases on enrollment); *coordinating boards* acting as arbitrators; and *state governments*, in effect, determining levels.

Tuition Rationales

Tuition has been under considerable pressure in recent years. Rising costs and tight budgets in state governments have focused attention on the role of tuition in financing higher education (see Table 3). States also have found that the historical pattern of tuition among and within their institutions has resulted in inequities and inconsistencies.

In a move to rationalize tuition policy, a few states have adopted, and other states are considering, setting tuition as a specified percentage of instructional costs. Such a system has been implemented in Florida, Kansas, Oregon, Wisconsin, and Colorado. Virginia has adopted a variation of the approach. Other states, including New York and Kentucky, have the plan under consideration. The Florida Board of Regents is working toward implementation of a policy which requires that tuition be set at 30 percent of average estimated instructional costs for different levels. In Virginia, institutions are expected to produce 30 percent of their operating revenues from tuition. The use of 30 percent as the approximate student contribution has

been based principally on historical patterns rather than assessment of the relative benefits to society and the individual.

The motivation behind the adoption of such a system stems from a number of sources. Among institutions within the same state there are often significant differences in the proportion of higher education financed through tuition. Equity within the system then is the goal. Tying tuition to costs is also a means of assuring that these internal revenues keep up with rising costs. Whether adopting such an approach means immediate increases depends, of course, on current levels. It also depends on how cost is calculated. The Carnegie Commission on Higher Education concluded that tuition should account for a third of the revenues designated for educational support. Florida found that in its calculation of "instructional cost", tuition levels were already very close to the 30 percent level. In one state in the region, tuition as a percent of cost is being considered as a way of holding tuition *down*, since students already pay a higher percentage.

Some argue that a system which is based on an arbitrary percentage of an ever increasing cost does not consider the ability of students and families to pay. Others believe that such a plan will create tensions among faculty, students and administrators. Faculty salary increases would be viewed as coming at the expense of students, or low tuition would be maintained at the expense of faculty.

Questions of equity are by no means settled by a tuition system pegged to costs. A staff study done by one state which has such a policy notes that the uniform fee structure of that state is based

Table 1

Resident Full-Time Undergraduate Tuition and Fees at Selected Major State Universities, Median Tuition, U.S. and SREB States 1965-66, 1973-74, 1976-77

	1965-66	1973-74	1976-77	Percent Increase 1965-76	Percent Increase 1973-76
United States	**$311**	**$562**	**$641**	**106%**	**14%**
SREB States	**265**	**495**	**556**	**110**	**12**
South as a Percent of U.S.	**85.2**	**88.1**	**86.7**		
University of Alabama	**$350**	**$510**	**$617**	**76**	**21**
University of Arkansas	**200**	**400**	**400**	**100**	**0**
University of Florida	**260**	**570**	**739**	**184**	**30**
University of Georgia	**258**	**538**	**666**	**158**	**24**
University of Kentucky	**250**	**480**	**480**	**92**	**0**
Louisiana State University	**220**	**320**	**440**	**100**	**38**
University of Maryland, College Park	**346**	**698**	**780**	**125**	**12**
University of Mississippi	**290**	**516**	**704**	**143**	**36**
University of North Carolina, Chapel Hill	**309**	**449**	**478**	**55**	**6**
University of South Carolina	**410**	**570**	**662**	**61**	**16**
University of Tennessee, Knoxville	**270**	**399**	**495**	**83**	**24**
University of Texas, Austin	**144**	**322**	**354**	**146**	**10**
University of Virginia	**452**	**622**	**734**	**62**	**18**
West Virginia University	**240**	**310**	**403**	**68**	**30**

Note: Median tuition for the U.S. is calculated by using the tuition and fees of one "major" state university in each of the 50 states. The University of Florida's amount for tuition and fees is calculated by averaging lower and upper division charges.

Source: National Association of State Universities and Land Grant Colleges, *Student Charges*, 1965-66, 1973-74; preliminary data provided for 1976-77.

on "average" costs at different levels. "At face value, having everyone pay identical amounts appears to provide equity across the system, but if in fact students purchase a different commodity for the same price, equity is not truly achieved."

More general philosophies for prevailing tuition levels also exist in SREB states. In some states, for example, while institutions maintain control of tuition revenue, the agency responsible for submitting a consolidated budget to the legislature deducts a set percentage from its formula generated budgets. Other states have stated objectives such as keeping tuition as low as possible. In South Carolina, statutes prescribe that tuition levels cannot be reduced. The Tennessee Higher Education Commission has made a number of recommendations, including ones which specify the relationship of tuition to economic measures of inflation and growth.

> States have . . . found that the historical pattern of tuition . . . has resulted in inequities.

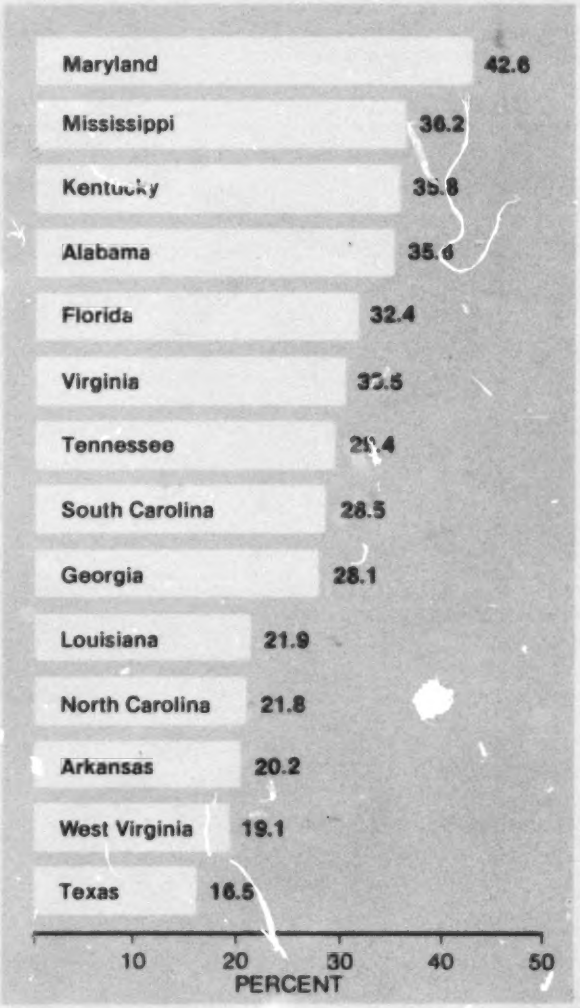
None of these methods, however, is as focused or comprehensive in its approach as "tuition as a percent of cost." In spite of its criticism, the approach has stimulated interest in the role of tuition in financing higher education and has raised questions about the impact of tuition on the goals of higher education. Tuition policy, whether a matter of statute or historical tradition, varies considerably among the states of the region.

Between types of institutions: Most of the states in the region have a mixed pattern of tuition among types of institutions. Generally, however, tuitions are lowest in two-year institutions, highest in comprehensive universities. Florida, through the Board of Regents, and Texas, by legislative action, have set uniform rates among all four-year institutions (tuition levels, however, vary in Texas due to institutions' control over miscellaneous fees). Arkansas tuitions at four-year institutions, although established by institutional boards, are generally uniform. In contrast, tuition levels are stratified (lowest in two-year; highest in doctoral institutions) in Georgia and North Carolina. While Tennessee has a mixed pattern, its higher education commission has recommended that tuition be comparable in similar kinds of institutions.

Between levels of instruction: Most institutions in the region apply the same rates of tuition to both undergraduate and graduate programs. Professional schools usually have a rate schedule of their own. In states where graduate tuitions vary, they are usually only slightly higher than undergraduate. Tennessee has recommended that institutions work toward a 50 percent differential between undergraduate and graduate tuition (the difference is currently about 10 percent). Only in Florida is there a distinction between lower and upper division undergraduate tuition. Freshmen and sophomores pay lower tuition due to lower costs.

Table 2

Tuition in Public Doctoral Granting Institutions
As a Percentage of State Appropriations
Per FTE Student, 1975-76



Between full-time and part-time students: The largest number of institutions in the region set tuition on a flat rate basis for full-time enrollment. Students taking over a specified number of hours (usually 12) pay the same amount. In Florida and Texas students pay on a per-credit-hour basis (there is a minimum fee in Texas). Those advocating per-credit-hour rates argue that flat rates discriminate against the part-timer; while those who support flat rates believe that such a system promotes more

Table 3

Revenue from Tuition and Fees Compared to State and Local Government Appropriations; Public Institutions, U.S. and SREB States, 1968-69 and 1974-75
(Dollars in Thousands)

	Student Tuition and Fees			State and Local Government Appropriations		
	1968-69	1974-75	Percent Increase	1968-69	1974-75	Percent Increase
U.S.	**$1,399,013**	**$3,088,413**	**121%**	**$5,220,051**	**$11,566,063**	**122%**
Percent of Unrestricted Education and General Revenues	**19.7**	**19.8**		**73.6**	**74.0**	
SREB STATES	**$ 331,416**	**$ 785,320**	**137%**	**$1,153,338**	**$ 3,108,128**	**169%**
Percent of Unrestricted Education and General Revenues	**21.0**	**18.9**		**73.2**	**74.9**	

Together, tuition and fees and state and local government appropriations comprise about 94 percent of the unrestricted education and general revenues of public institutions in the U.S. In the South in 1974-75, tuition was the source for slightly less than 19 percent of these dollars; state and local government, 75 percent. The remaining 5-6 percent consist of federal appropriations, endowment income, and gifts. Excluded are revenues provided for sponsored research and programs, indirect cost recovery, and other miscellaneous education and general revenues.

In the six-year period from 1969 to 1975, revenue from tuition and fees increased more rapidly in the South than in the nation as a whole. State and local government appropriations, however, grew even more rapidly. While the relationship between tuition and appropriations did not change for the nation as a whole, tuition in the South was a smaller percentage of all unrestricted education and general revenues in 1975 than in 1969.

Source: National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education: Current Funds Revenue and Expenditures, 1968-69.* Advance information provided by NCES for 1974-75.

rapid movement through a program and thus greater efficiency. Students will add extra hours to their load when there is no additional cost. Florida which recently switched from flat rate to per-credit-hour rates has found that student loads have dropped and administrative costs associated with fee collection have increased considerably.

Between in-state and out-of-state tuition: Nonresident tuition has received considerable attention from legislators. In Mississippi, a statute requires that out-of-state tuition must equal appropriations per FTE student. The Kentucky Council is required to consider out-of-state tuition in adjoining states in setting its own policy. Increasingly, states are adopting an unwritten policy that out-of-state tuition should approximate full cost. In South Carolina, tradition dictates that nonresidents pay double the rate for in-staters.

The problem from the perspective of many states has been to seek protection from student newcomers. Advocates of high nonresident fees believe that taxes should not support students of nonreciprocating states who are unlikely to remain in-state when they have completed their education. With the extension of voting rights to younger citizens and Supreme Court rulings which have made students eligible for resident status after one year, states are making a variety of adjustments in their policies. Some have responded by significantly increasing resident and nonresident tuition to make up for lost revenues while others are altering requirements for proof of residence.

Opponents of high out-of-state tuition barriers point to the cultural and educational benefits derived from diversified student bodies. Interstate mobility also allows for a better match between programs and applicants. Institutions which hope to obtain national reputations must attract highly qualified students from throughout the nation.

There is an economic argument for the dropping of tuition barriers as well. Interstate compacts, including SREB, have managed student exchange programs for many years. More recently, the *Academic Common Market* was organized and

operates on the premise that enrollment of nonresident students in "uncommon" programs at resident tuition rates prevents the proliferation of expensive programs and promotes efficiency.

While there have been proposals for governmental action to increase interstate access (see Robert Carbone's *Alternative Tuition Systems*) the problem may be alleviated without intervention by the advent of stable or declining enrollments. Underutilized programs may then seek nonresidents by lowering tuition. Even now, in order to attract more students, institutions near state borders often have no out-of-state surcharge.

Tuition and economic indicators: Comparison of tuition increases with growth in personal income provides a method for monitoring tuition's rise in the context of the population's ability to pay these increased costs. Some states are watching this relationship, as well as examining other economic indicators. Rises in the consumer price index and in the higher education price index have also been used as signals for initiating tuition increases. The Tennessee Higher Education Commission has recommended that tuition increase no faster than the rate of inflation allowed for other parts of the state budget.

The Impact on Financial Aid

Southern states in 1976-77 provided $43 million in student aid to 81,000 students. These funds, plus those distributed through federal and other aid programs, play an important role in the financing of higher education. Student aid funds which are increasingly being put into the hands of individuals rather than institutions, are emerging as an important mode of delivery in financing higher education. Tuition levels affect not only the need for financial aid, but the competitive position of institutions seeking to attract students who "carry" their aid with them. There are also varying ways to finance student aid. While most states fund student grant programs from state tax revenues, others also use tuition revenues as a source of financial aid dollars—in a form of income redistribution from one student to another.

> Student aid funds . . . are emerging as an important mode of delivery.

Student aid is also being used to affect the differential between public and private tuition. Some states have chosen to maintain low public tuition while providing equalization grants which students can use to reduce their tuition at private institutions. The impact of these policies and the interrelationship of financial aid with other forms of financing is a subject which needs close attention and careful research.

Tuition: Different Perspectives

Tuition policy should not be determined in a vacuum. The goals which states hope to achieve through their systems of higher education should be the starting point for an assessment of tuition policy. More agreement, however, can be found about goals than about the impact of various methods of financing higher education on those goals.

> . . . goals should be the starting point for an assessment of tuition policy.

The Carnegie Commission's recommendation that tuition gradually rise to one-third of educational costs in public four-year institutions was followed by recommendations of the Committee for Economic Development. They concluded that tuition be raised to approximately half of the instructional costs in all kinds of institutions. The impact of these recommendations, while subject to question over their exact meaning, was considerable. Coming at a time when states were reacting to the increasing cost of education, they provided a rationale and legitimacy to requests for increased tuitions. Opponents of the recommendations saw them as a threat to the goals of equal opportunity through open access.

Whether or not explicitly stated, state support reflects the pragmatic answer to the question posed by the Carnegie Commission—who benefits from higher education and who pays?

Americans have generally accepted the principle that tuition in public institutions should be kept as low as possible. To many, higher education is an extension of the free public elementary and secondary school system, which serves the need of a complex modern industrial society for a well-educated population. Access to free or low cost higher education has been, and continues to be, perceived as the path of upward mobility for much of the population. Low tuition advocates (there is now a National Coalition for Lower Tuition in Higher Education) believe that the benefits of higher education accrue principally to society—

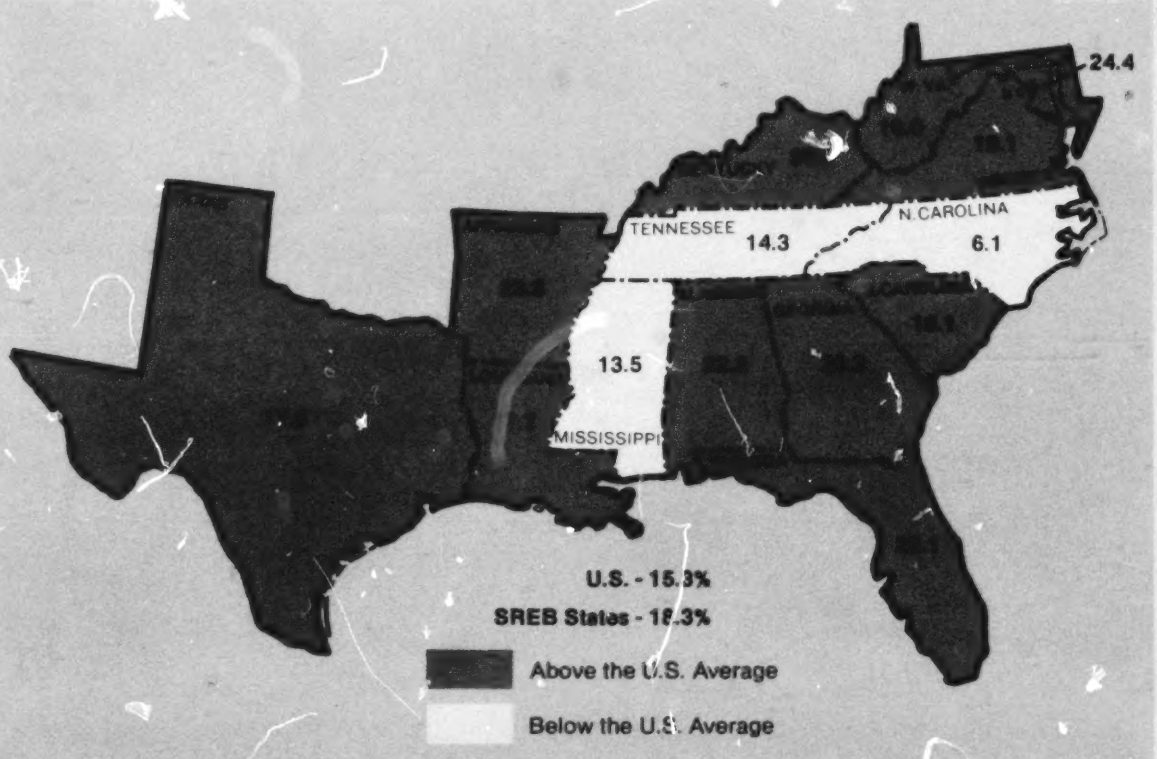
through a well informed electorate; a financially independent and productive population; a citizenry free of social ills and more capable of transmitting the best of its culture and heritage. If the benefits belong to society, then so do the costs—to be shared as a whole. Low tuition provides equality of opportunity and equity of cost burden.

In contrast, high tuition advocates believe that the benefits of higher education are principally individual benefits—and thus should be paid for by the individual. Increased personal income, a satisfying job, the intrinsic value of education itself are personal benefits which outweigh those accrued by society.

Historically, the pattern has been a mixed one—with a sharing of costs between individual and society. But the arguments and assumptions which are attached to the two contrasting philosophies are important elements in analyzing the concept of tuition. There is serious disagreement over the impact of the two approaches regarding such questions as access and equity. A major assumption of low tuition advocates, for example, is that equality of opportunity and equity of cost burden are provided through a progressive tax system. But the primary support for higher education is through state and local subsidies. How progressive are the taxes through which these funds are raised? On the other hand, high tuition advocates see no need to subsidize individuals who have the ability to

Figure 1

Revenue from Student Tuition and Fees as a Percent of Unrestricted Education and General Revenue; Two-Year Institutions, 1972-73



Tuition is a larger component of revenue for basic instructional costs in Southern two-year institutions than in the nation as a whole. Eleven of the 14 states were above the U.S. average in 1972-73. Tuition as a percentage of unrestricted education and general revenue ranged from 6.1 percent in North Carolina to 30.9 percent in Kentucky.

Note: Unrestricted Education and General Revenue includes student tuition and fees, governmental appropriations, endowment income, and gifts.

Source: National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education: Current Funds Revenues and Expenditures, 1972-73.*

pay. Higher tuition coupled with financial aid for those who cannot pay is the more efficient use of resources. But in practice, high tuition is seldom offset by adequate financial aid, especially to students from middle income backgrounds.

Price of Purchase or Public Use Tax?

To the student buyer of educational products, tuition may be thought of as the price of purchase. In this context, students can be viewed as weighing the value of that product, both for its short term "consumptive" benefits and its long term "investment" potential. Are students responsive to the price of education? It is a question which is frequently being asked as colleges seek to maintain their enrollments. The elasticity of tuition (the economists' term for the responsiveness of demand to the price of the product) appears to vary among different buyers and different settings. Students from low income families are more responsive to price than those from high income backgrounds. Price appears to have less impact on enrollment in prestigious high demand institutions than less attractive ones.

In a study of the determinants of enrollment in the University of Wisconsin system, researchers found that adult students are especially responsive to price. In an experiment in which certain two-year institutions lowered their tuitions substantially while others remained the same, enrollment among adults who had no plans to attend other institutions increased. It was estimated that lowering tuition from $400 to zero would double the local college attendance rate of adults. The authors of the study also concluded that, besides lowering tuition, there was little else that public policy could do to influence these college going rates of adults.

While states may not be able to drastically alter their tuition levels, these findings imply that adjustments within the system might be made. Fee structures, for example, tend to discriminate against part-timers who are usually adult students and more responsive to price. Adjustments to tuition levels at high demand institutions might also be used to relieve strain on other institutions.

There is an alternative view of tuition—one which may be more applicable to the state level perspective. Tuition, while price to the purchaser, is also a form of use tax levied on a public service. Public institutions, then, are the tax collectors of the state. From this perspective, tuition levels are raised to balance the budget in much the same manner as other forms of taxes. In fact, institutions have long used tuition to make up the difference between their perceived needs and the volume of state support. Tuition is often raised after appropriations have been made.

> "Studies of tuition are required . . . (for) . . . the more equitable distribution of public funds . . .
>
> —*Priorities for Postsecondary Education in the South.*

Viewing tuition in such a light has a number of implications. Jane L. Johnson believes that tuition should be considered in the context of states' total tax structure. What is the impact of present systems of taxation and support to higher education? Some analyses have concluded that high state support (financed by largely regressive taxes) actually subsidizes the rich at the expense of the poor.

The opposing view is that tax structures are more progressive than some economists believe and that the best way of reducing the negative redistribution effects is through low or no tuition.

If tuition is viewed as another form of taxation, then policy-makers may conclude that decisions concerning its level belong in the political realm. Legislatures, however, are often reluctant to impose higher "tuition taxes." Nor are institutions anxious to relinquish control of tuition. They view themselves as best suited to determine their particular needs and control their own competitive position.

State Studies of Tuition and Financing

"Studies of tuition structure and student financial aid are required in each state as a prerequisite to the formulation of more equitable procedures in the distribution of public funds and the assignment of costs borne by students." So reads a recommendation of the recent position statement of the Southern Regional Education Board, *Priorities for Postsecondary Education in the South.*

A number of states in the region have completed tuition studies or have plans for undertaking such a project. The Florida Board of Regents and the Kentucky Council on Public Higher Education are currently conducting reviews of tuition in their states. As a part of the regulatory powers provided the State Board of Higher Education in Maryland, that agency is required to develop tuition guidelines. South Carolina has proposed that a tuition study be a part of the planning

efforts of its postsecondary (1202) commission.

While the scope of these studies and others which may be undertaken will vary, depending on the structure and governance of higher education in a particular state, this review of tuition policy has presented issues and questions which are essential elements in a comprehensive study of tuition and state financing of higher education:

- ☐ What are the goals for higher education in the state? How do rationales developed for tuition policy meet these goals?
- ☐ Who should set tuition? What part should it play in the budget process?
- ☐ What is the relationship between revenue raised from tuition and other sources? How does the financing of higher education fit into the tax structure of the state? Will the system be able to meet future needs? Will it keep up with economic growth? Does it meet the criteria of equity?
- ☐ What is the appropriate tuition relationship between different types of institutions? Between levels of instruction? Between resident and nonresident tuition? Between full-time and part-time students? How do proposed tuition increases compare with increases in personal income? Other economic indicators?
- ☐ How do the tuition policies being considered affect student aid needs? What will be the impact of delivering revenue through a different mode?
- ☐ What will be the impact of proposed tuition changes on enrollment? Can tuition be manipulated in order to provide optimal financing and optimal enrollment?

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Tuition Policy in Public Higher Education

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